

Message Text

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PAGE 01 VANCOU 00020 01 OF 02 102051Z
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INFO AMEMBASSY OTTAWA
ALL AMCONSULS CANADA

LIMITED OFFICIAL USE SECTION 1 OF 2 VANCOUVER 0020

E.O. 11652: N/A
TAGS: PFOR, ETRD, CA
SUBJECT: BRITISH COLUMBIA AND THE THIRD OPTION

1. SUMMARY. ALTHOUGH IT DOES HAVE SOME APPEAL TO NATIONALIST SENTIMENTS IN THE PROVINCE, THE CANADIAN GOVERNMENT'S "THIRD OPTION" STRATEGY FOR THE CONDUCT OF RELATIONS WITH THE U.S. IS PAID ONLY SCANT ATTENTION BY THE B.C. GOVERNMENT AND BUSINESS COMMUNITY. B.C. IS HEAVILY DEPENDENT UPON FOREIGN TRADE FOR ITS ECONOMIC SURVIVAL AND THE U.S. TRADITIONALLY ACCOUNTS FOR ABOUT ONE-HALF OF THE PROVINCE'S TOTAL EXPORTS AND MUCH OF ITS FOREIGN INVESTMENT. B.C. WOULD LIKE TO EXPAND ITS ECONOMIC RELATIONS WITH OTHER WORLD MARKET AREAS, BOTH TO INCREASE ITS EARNINGS AND TO LESSEN ITS SUSCEPTIBILITY TO THE MOODS OF THE U.S. ECONOMY, BUT ECONOMIC AND GEOGRAPHICAL IMPERATIVES AND THE BASIC PRO-AMERICAN ORIENTATION OF THE PROVINCE STRONGLY DICTATE AGAINST ANY FUNDAMENTAL SHIFT IN B.C.'S RELATIONSHIP WITH THE UNITED STATES. END SUMMARY.

2. THE GOVERNMENT OF CANADA FORMULATED IN THE EARLY 1970'S A NEW POLICY, KNOWN AS THE "THIRD OPTION," FOR ORDERING ITS
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PAGE 02 VANCOU 00020 01 OF 02 102051Z

RELATIONS WITH THE UNITED STATES. THE AIM WAS TO LESSEN THE ECONOMIC VULNERABILITY OF CANADA TO THE OVERWHELMING IMPACT AND INFLUENCE OF THE US BY DEVELOPING CLOSER RELATIONS WITH OTHER PARTS OF THE WORLD, PARTICULARLY EUROPE AND JAPAN. ALTHOUGH BRITISH COLUMBIANS ARE CONCERNED ABOUT THE HIGH DEGREE OF B.C. ECONOMIC DEPENDENCY UPON US MARKETS, THE ECONOMIC AND GEOGRAPHIC REALITIES AND THE UNDERLYING PRO-AMERICAN ORIENTATION OF B.C. HAVE RESULTED

IN LITTLE SERIOUS ATTENTION TO THE FEDERAL POLICY BY THE PROVINCIAL GOVERNMENT OR THE BUSINESS COMMUNITY. AT THE SAME TIME, HOWEVER, ECONOMIC IMPERATIVES, THE WISH TO LESSEN PROVINCIAL SUSCEPTIBILITY TO MOODS OF THE US ECONOMY AND NATIONALISTIC PRIDE HAVE MOTIVATED B.C. OVER THE PAST DECADE TO SEEK EXPANDED TRADE OPPORTUNITIES WITHOUT FUNDAMENTALLY ALTERING THE OVERALL CLOSE RELATIONSHIP.

3. FOREIGN TRADE IS MOST IMPORTANT TO THE B.C. ECONOMY. EXPORTS AMOUNT TO ABOUT 20 PERCENT OF THE GROSS PROVINCIAL PRODUCT (\$18.4 BILLION IN 1975) AND ACCOUNT FOR APPROXIMATELY 55 PERCENT OF THE PROVINCE'S ANNUAL COMMODITY OUTPUT, PRIMARILY IN THE FORM OF UNPROCESSED NATURAL RESOURCES. THE B.C. GOVERNMENT ESTIMATES THAT POSSIBLY AN EQUAL PROPORTION (55 PERCENT) OF TOTAL B.C. INCOME ORIGINATES FROM COMMODITY SALES AND RELATED ACTIVITIES IN EXTERNAL MARKETS. THE UNITED STATES, FOR REASONS OF GEOGRAPHY, HISTORY AND CULTURE, DIRECTLY ACCOUNTS FOR ABOUT ONE-HALF OF B.C.'S TOTAL EXPORTS, REPRESENTING NEARLY ONE-THIRD OF THE VALUE OF THE PROVINCE'S TOTAL PRODUCTION OF NATURAL RESOURCES AND MANUFACTURES, AND FOR MUCH OF THE OWNERSHIP OF B.C. RESOURCE INDUSTRIES.

4. THE B.C. BUSINESS COMMUNITY AND PROVINCIAL GOVERNMENT OFFICIALS DO NOT BELIEVE THAT THE THIRD OPTION HAS OFFERED ANY VIABLE, REALISTIC ALTERNATIVE TO THE AMERICAN CONNECTION OR THAT OTTAWA'S ESPOUSAL OF THAT STRATEGY HAS ASSISTED B.C. IN DEVELOPING ITS OVERSEAS TRADE OR IN ATTRACTING NEW FOREIGN INVESTORS. BRITISH COLUMBIANS BELIEVE THEIR EXISTENCE AND FUTURE WILL CONTINUE TO BE STRONGLY RELATED TO THE PERFORMANCE OF THE US ECONOMY REGARDLESS OF WHATEVER EFFORTS ARE MADE TO DIVERSIFY AND EXPAND TRADING TIES, LIMITED OFFICIAL USE

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PAGE 03 VANCOU 00020 01 OF 02 102051Z

AND THAT THIS VERY STRONG RELATIONSHIP, EXPRESSED IN A MULTITUDE OF CONNECTIONS--POLITICAL, ECONOMIC, SOCIAL AND GEOGRAPHIC--CANNOT BE DIMINISHED WITHOUT UNACCEPTABLE CONSEQUENCES TO THE B.C. WAY OF LIFE AND LIVING STANDARDS. BRITISH COLUMBIANS DO NOT WRING THEIR HANDS IN DESPAIR OVER THE CLOSE ECONOMIC RELATIONSHIP WITH THE US. THEY ACCEPT IT, EVEN WELCOME IT WITH ENTHUSIASM WHEN THE US ECONOMY IS IN HIGH GEAR, AND ENDEAVOR DAILY TO INCREASE THEIR TRADE WITH THE US AND ATTRACT INVESTMENT.

5. BRITISH COLUMBIANS ARE NONETHELESS ECONOMIC PRAGMATISTS AND ARE PREPARED TO WELCOME TRADE AND INVESTMENT WITH OPEN ARMS FROM WHEREVER IT CAN BE OBTAINED IN ORDER TO PROVIDE A RISING LEVEL OF ECONOMIC ACTIVITY AND AFFLUENCE FOR A POPULATION WHICH HAS GROWN BY ONE-THIRD SINCE 1965 AND A LABOR FORCE WHICH HAS INCREASED BY ONE-QUARTER OF A MILLION SINCE 1970. B.C. HAS BEEN MODERATELY SUCCESSFUL SINCE 1965 IN ITS TRADE DEVELOPMENT TARGET AREA OF JAPAN AND OTHER SO-CALLED

"PACIFIC RIM" COUNTRIES, EXTENDING FROM SOUTH KOREA TO NEW ZEALAND. EXPORTS TO JAPAN INCREASED AT AN ANNUAL RATE OF 21.2 PERCENT IN THE PERIOD 1965-1975, COMPARED WITH ONLY 12.5 PERCENT FOR ALL B.C. PRODUCT EXPORTS TO ALL OTHER COUNTRIES, AND ACCOUNTED FOR 22.3 PERCENT OF THE TOTAL VALUE OF B.C. PRODUCTS SHIPPED ABROAD IN 1975, AS OPPOSED TO ONLY 10.4 PERCENT IN 1965. (THE COMPARABLE SHARES FOR B.C. EXPORTS TO THE U.S. WERE 57.3 PERCENT IN 1965 AND 48.7 PERCENT IN 1975.) IT IS WIDELY RECOGNIZED, HOWEVER, THAT THE B.C. IMPROVED TRADE WITH JAPAN TO DATE HAS BEEN MORE DUE TO THE JAPANESE NEED FOR A SECURE SOURCE OF PRIMARY RESOURCES THAN TO ANY SPECIAL B.C. MARKETING EXPERTISE, SUCCESS IN DEVELOPING EXPORTABLE MANUFACTURES, OR TO ANY IMPLEMENTATION OF THE FEDERAL GOVERNMENT'S THIRD OPTION POLICY. LITTLE SUCCESS, HOWEVER, HAS BEEN EXPERIENCED BY B.C. IN ATTRACTING OVER-SEAS INVESTMENT LIMITED OFFICIAL USE

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PAGE 04 VANCOU 00020 01 OF 02 102051Z

NEEDED TO DEVELOP RESOURCE PROCESSING AND SECONDARY MANUFACTURING. (IN THE OPINION OF SOME OBSERVERS, THE "SOCIALIST" NDP GOVERNMENT OF DAVID BARRETT ACTUALLY SPOOKED FOREIGN INVESTMENT OPPORTUNITIES DURING 1972-1975.) IN FACT, B.C.'S PRESENT SOCIAL CREDIT GOVERNMENT CHARGES THAT OTTAWA, CONTRARY TO WHAT MIGHT BE EXPECTED FROM PROMOTION OF THE THIRD OPTION, IS HINDERING THE PROVINCE'S ECONOMIC DEVELOPMENT.

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PAGE 01 VANCOU 00020 02 OF 02 102115Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 VANCOUVER 0020

6. IN THE B.C. VIEW, OTTAWA IS OVERLY ENAMORED WITH ITS PROSPECTIVE ATLANTIC TIES AND RELEGATES LOW PRIORITY TO TRADE AND INVESTMENT OPPORTUNITIES WITH JAPAN AND OTHER PACIFIC RIM COUNTRIES, WHICH B.C. BELIEVES OFFER TO IT THE GREATEST POSSIBILITIES FOR EXPANDED ECONOMIC RELATIONS. B.C. OFFICIALS, FROM PREMIER BENNETT ON DOWN, ADMIT B.C.'S PAST RESPONSIBILITY FOR MISSED ECONOMIC OPPORTUNITIES ABROAD. THEY STATE THAT THE EXPORT OF UNPROCESSED RESOURCES WILL CONTINUE TO DOMINATE THE B.C. ECONOMY UNTIL THE PROVINCE CAN ENSURE THAT ITS COSTS WILL NOT EXCEED THOSE OF ITS COMPETITORS IN THE INTERNATIONAL MARKETPLACE AND UNTIL A POSITIVE ATMOSPHERE IN LABOR-MANAGEMENT RELATIONS INDUCES COUNTRIES SUCH AS JAPAN TO INVEST IN SECONDARY INDUSTRY.

7. FOR ITS PART, B.C. IS NOW ENGAGED IN EFFORTS TO IMPROVE PROVINCIAL TRADE PERFORMANCE BY BRINGING COSTS OF DOING BUSINESS INTO LINE WITH THE COMPETITION, BY ATTEMPTING TO ASSURE LONG-TERM SUPPLIES OF RAW MATERIALS TO EXPORT CUSTOMERS, AND BY URGING OTTAWA TO LIMITED OFFICIAL USE

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PAGE 02 VANCOU 00020 02 OF 02 102115Z

ACHIEVE FREER TRADING RELATIONSHIPS THROUGH THE MULTILATERAL TRADE NEGOTIATIONS. HOWEVER, THE B.C. GOVERNMENT STRONGLY FEELS THAT OTTAWA'S TAXATION POLICIES AND SCREENING OF FOREIGN INVESTMENT MAKE A MOCKERY OF THE AVOWED AIMS OF THE THIRD OPTION. SPECIFICALLY, B.C. OFFICIALS BELIEVE THAT FEDERAL TAXATION POLICIES DO NOT PERMIT SUFFICIENT RETURN ON INVESTMENT TO ENCOURAGE PLANT EXPANSION AND THAT NEW FOREIGN INVESTMENT IS STIFLED THROUGH NEGATIVE ACTIONS OF THE FOREIGN INVESTMENT REVIEW BOARD. B.C. ECONOMIC DEVELOPMENT MINISTER PHILLIPS RECENTLY STATED PUBLICLY: "IF IT IS THE PLAN OF THE FEDERAL GOVERNMENT TO CUT OFF CAPITAL INFORMATION IN BRITISH COLUMBIA, THEN I WANT TO ASSURE THEM THAT THE COMBINED EFFECTS OF THEIR TAXATION POLICIES AND THE FIRA ARE--VERY REGRETTABLY--DOING A GOOD JOB OF CURTAILING EXPANSION IN THIS PROVINCE." PHILLIPS RECALLED THAT THE FEDERAL GOVERNMENT, AS PART OF ITS ANTI-INFLATION PROGRAM, HAD PROPOSED IN 1975 AN EXPORT LEVY AND THAT BRITISH COLUMBIA HAD LED THE SUCCESSFUL FIGHT TO REMOVE THAT LEVY. HE NOTED THAT THE LEVY WOULD HAVE BEEN DISASTROUS TO B.C., "FOR EXPORTS TO JAPAN IN 1975 ALONE ACCOUNTED FOR

NEARLY HALF OF THE TOTAL CANADIAN EXPORTS TO THAT COUNTRY." PHILLIPS CITED THIS AS AN EXAMPLE OF OTTAWA'S DISCRIMINATION AGAINST THE ECONOMIC DEVELOPMENT EFFORTS OF WESTERN CANADA.

8. THE TEST OF OTTAWA'S COMMITMENT TO PROMOTING THE THIRD OPTION, ACCORDING TO PROVINCIAL OFFICIALS, WILL BE THE FEDERAL GOVERNMENT'S RESPONSE TO B.C.'S REQUEST FOR SUBSTANTIAL FEDERAL ASSISTANCE IN PROVIDING INFRASTRUCTURE FOR DEVELOPMENT OF THE NORTHEAST METALLURGICAL COAL DEPOSITS, PRIMARILY FOR EXPORT TO JAPAN. INFRASTRUCTURE REQUIREMENTS ARE ESTIMATED AT THREE-QUARTERS OF A BILLION DOLLARS AND COULD EVENTUALLY RESULT IN THE ANNUAL EXPORT OF TEN MILLION TONS OF COAL, PERHAPS BRINGING LIMITED OFFICIAL USE

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PAGE 03 VANCOU 00020 02 OF 02 102115Z

IN AS MUCH AS ONE BILLION DOLLARS ANNUALLY IN EXPORT SALES BY THE MID-TO-LATE 1980'S. COAL DEVELOPMENT OF THIS MAGNITUDE WOULD PROVIDE A VITAL COUNTERPOINT TO B.C.'S FALTERING FOREST INDUSTRY, CREATE UP TO 6,000 NEW JOBS AND UP TO \$100 MILLION IN NEW CORPORATE TAXES. RECENT FIRA APPROVAL IN PRINCIPLE OF JAPANESE AND GERMAN INVESTMENTS IN THE COAL PROJECT IS ENCOURAGING TO BRITISH COLUMBIA, BUT WITHOUT A FIRM COMMITMENT BY OTTAWA TO INVEST FEDERAL FUNDS THE PROJECT IS VIEWED AS PROBABLY BEING BEYOND PROVINCIAL CAPABILITIES.
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